EXHIBIT H

Chinese Translation 中文翻译

PDVSA 2020 bondholders press for settlement, in line for 115% recovery in PDVH sale

06 February 2024 06:02 PM | Legal Risk | REDD LATAM

Strategic Considerations: One factor in the planned court-ordered auction of PDVSA's US assets is how a buyer will deal with PDVSA's secured notes due 2020, which are collateralized by 50.1% of the shares of an intermediate Delaware holdco. Since the bonds defaulted in 2019, bondholders have a lien on those shares. That could keep a buyer bidding in the court auction from getting free and clear ownership of the far more valuable opcos at the base of the structure. To get rid of that complication, analysts and the market have expected that a buyer would pay off 2020 bondholders. But the dollar amount of the payout has been a matter of speculation.

- Secured bonds stopped getting default interest in December 2020 after judgment limited gains
- Bondholders seek USD 1bn to take part in bidding for PDV Holding

Holders of **PDVSA** secured bonds due 2020 expect a recovery of 115% if they get bought out as part of a planned court auction of Venezuela's US assets, two people familiar said.

The payment would include the full amount of the bonds plus 15% in accrued interest, they said. The first person familiar said that Special Master Robert Pincus, who is overseeing the auction of PDVSA assets, has already assumed that they would be bought out at par plus 15%, but the second said negotiations were ongoing.

An ad hoc group of 2020 holders negotiating with PDVSA includes BlackRock, Contrarian Capital

and Ashmore, per the second person. Andrew Rosenberg of Paul Weiss represents the group. Rosenberg didn't respond to a request for comment.

The auction is taking place under the auspices of the US federal court in Delaware. **Crystallex International** started the case in 2017 when it took a recognized ICSID arbitration award to the state and sued to seize and auction shares of **PDV Holding** (PDVH), which is directly owned by PDVSA. The bankrupt Canadian miner argued that PDVSA was an alter-ego of the Republic and should be liable for Venezuela's USD 1bn arbitration debt. Crystallex won and was eventually joined by almost two dozen other plaintiffs seeking to satisfy debts owed by PDVSA or Venezuela. The auction process is now ongoing, as reported.

To ensure the sale goes through and pays off the 2020 bonds, holders are working with investment bank Greenhill to sell USD 1bn of senior secured notes that would provide staple financing for bidders making offers on PDVH, according to a source. The idea is for the noteholder financing proposals to provide a baseline for a future settlement, the second person familiar said. Greenhill didn't immediately respond to a request for comment.

The upper limit of what holders can receive for the bonds is par plus 15%, according to the second person and a desk analyst report. That is because the bond trustee and collateral agent, MUFG Union Bank and GLAS Americas, won a judgment on the defaulted bonds on 1 December 2020. That judgment stopped accumulating 8.5% interest and began to grow at the federal judgment rate, which at the time was just over 0.1%, according to REDD calculations and the analyst report.

Email
Print

Region:
LATAM

Country:
Venezuela

Companies/Issuers:
Petroleos de Venezuela S.A. - PDVSA

Related documents:

Related Stories

- Venezuela Legal Shorts: PDVSA beats Syracuse Mountains, Gramercy and PDVSA go to war LATAM
- PDV Holding special master requests new extension of deadlines for auction LATAM
- Venezuela opposition shows evidence of victory as street protests break out LATAM
- REDD Insight: Venezuela election could start a dream or a nightmare LATAM
- Venezuela Legal Shorts: Contrarian moves against Gramercy, 2020 bond suit extended LATAM

In 2015, PDVSA issued its USD 3.4bn 8.5% secured amortizing bonds due 2020 as part of a swap to get rid of near-term maturities. The company paid off half of the bonds' principal on schedule, but failed to pay the final two amortizations, leaving USD 1.68bn of principal outstanding.

Analysts looking at the 2020 bond have often said that the past-due interest could be upwards of 40%, based on the assumption that 8.5% interest would have continued to accumulate since PDVSA stopped paying in October 2019; the coupon that would have been due in April will be the tenth to go unpaid since the default.

That overlooks the judgment that Judge Katherine Polk Failla issued in favor of the bond trustee and collateral agent. PDVSA's US-recognized "ad hoc" board of directors started the suit, trying to annul the bonds completely by claiming that they were "national interest contracts" and that PDVSA had taken on the debt without required authorizations from the Venezuelan legislature.

Failla rejected PDVSA's motion for summary judgment and instead granted a counterclaim by MUFG and GLAS that the USD 1.68bn of principal, USD 228.2m of interest, and USD 12.2m of interest on interest were all due. Interest on the full USD 1.92bn judgment has been accumulating at the statutory interest rate since then, meaning it has grown to USD 1.93bn, per REDD calculations.

After Failla's 2020 judgment, PDVSA immediately appealed to the Second Circuit US Court of Appeals, which is still mulling the case. That court outsourced part of the decision to New York's highest state court, the Court of Appeals, which heard arguments on 10 January and is expected to rule by mid-March on choice-of-law issues.

The 2020 bonds were indicated at 84.8 on 2 February, according to Cbonds.

Debt scholar Arturo Porzecanski at American University said in 2019 that PDVSA and its bondholders should negotiate a settlement on the secured bonds, rather than pursue the "Hail Mary" strategy of trying to nullify the bonds. Under US legal precedent, he wrote in the Financial Times, "when a government expressly represents that a bond is properly authorized, investors are entitled to rely on that representation."

Other advisors, including Dan Pombo of JP Morgan, have pressed PDVSA's US-recognized board to settle claims, but the board insisted on the 2020 litigation and other lawsuits, including an attempted appeal of most of the claims to the US Supreme Court, the second person said. The high court rejected that appeal, as reported.

PDVSA's US-recognized ad hoc board said in a January statement that it was "open to conversations and constructive dialog with creditors to reach negotiated agreements."

by Steven Bodzin, New York

Please contact us about this story

